

CITY OF MYSTIC, IOWA  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2009

CITY OF MYSTIC, IOWA

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CITY OF MYSTIC, IOWA

OFFICIALS  
JUNE 30, 2009

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Frank Belzer	Mayor	January 2010
Walter Buban	Council Member	January 2010
Patsy Seals	Council Member	January 2010
Chris Chester	Council Member	January 2010
Shawn Oden	Council Member	January 2010
Christina Kieltyka	Council Member	January 2010
Alice Chester	City Treasurer	Indefinite
Karen Poolman	City Clerk	Indefinite
Deb George	City Attorney	Indefinite

## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members  
of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund of the City of Mystic, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Mystic, Iowa's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all the prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2008.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2008, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, and each major fund of the City of Mystic, Iowa as of June 30, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 30, 2010 on our consideration of the City of Mystic, Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 19 through 20 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mystic, Iowa's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the years ended June 30, 2008 and 2006 (which are not presented herein) and expressed qualified opinions on those financial statements which were prepared in conformity of an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa  
January 30, 2010

# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City of Mystic, Iowa provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

## **2009 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities were \$242,801 for fiscal 2009. Property tax and intergovernmental revenues were \$70,093 and \$106,117, respectively.
- Disbursements of the City's governmental activities were \$280,206 in fiscal 2009. Public works disbursements were \$105,514 while capital projects expenditures were \$86,573.
- The City's total cash basis net assets decreased 16.2%, or \$47,253 from June 30, 2008 to June 30, 2009. Of this amount, the net assets of the governmental activities decreased \$23,905 and the net assets of the business type activities decreased \$23,348. These decreases are due primarily to current year capital projects.

## **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets – Cash Basis. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the City's long term debt and historical receipts and disbursements.

## **Basis of Accounting**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information that helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water and sewer funds. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Local Option Sales Tax and the Fire Station, and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$181,738 to \$157,833. The City's cash balance for business type activities also decreased from a year ago, decreasing from \$109,884 to \$86,536. The analysis that follows focuses on the changes in cash balances for governmental and business type activities.

### Changes in Cash Basis Net Assets of Governmental Activities

	Year Ended June 30,	
	<u>2009</u>	<u>2008</u>
<b>Receipts:</b>		
Program receipts:		
Charges for service	\$ 15,128	\$ 4,277
Operating grants, contributions and restricted interest	105,337	122,194
Capital grants, contributions and restricted interest	-	35,000
General receipts:		
Property tax	70,093	75,876
Local option sales tax	38,434	38,032
Other general receipts and transfers	<u>27,309</u>	<u>32,829</u>
<b>Total receipts</b>	<u>256,301</u>	<u>308,208</u>
<b>Disbursements:</b>		
Public safety	11,780	24,826
Public works	105,514	117,090
Culture and recreation	4,248	8,810
Community and economic development	4,079	25
General government	62,887	62,373
Capital projects	86,573	58,186
Debt service	<u>5,125</u>	<u>-</u>
<b>Total disbursements</b>	<u>280,206</u>	<u>271,310</u>
Change in cash basis net assets	(23,905)	36,898
Cash basis net assets beginning of year	<u>181,738</u>	<u>144,840</u>
Cash basis net assets end of year	\$ <u>157,833</u>	\$ <u>181,738</u>

### Changes in Cash Basis Net Assets of Business Type Activities

	Year Ended June 30,	
	<u>2009</u>	<u>2008</u>
<b>Receipts:</b>		
Program receipts:		
Water	\$ 60,475	\$ 71,200
Sewer	61,870	62,698
Capital grants, contributions and restricted interest	78,399	73,324
General receipts:		
Unrestricted interest on investments	641	1,110
Other general receipts and transfers	<u>49,686</u>	<u>15,991</u>
<b>Total receipts</b>	<u>251,071</u>	<u>224,323</u>
<b>Disbursements:</b>		
Water	199,122	107,135
Sewer	<u>75,297</u>	<u>60,168</u>
<b>Total disbursements</b>	<u>274,419</u>	<u>167,303</u>
Change in cash basis net assets	(23,348)	57,020
Cash basis net assets beginning of year	<u>109,884</u>	<u>52,864</u>
Cash basis net assets end of year	\$ <u>86,536</u>	\$ <u>109,884</u>



## INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Mystic, Iowa completed the year, its governmental funds reported a combined fund balance of \$157,833, a decrease of \$23,905 from last year's total of \$181,738. The following are the reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash basis balance decreased \$78,150 due in part to capital projects.
- The Road Use Tax Fund cash basis balance increased by \$16 because receipts slightly exceeded road use tax expenditures.
- The Local Option Sales Tax Fund cash basis balance increased by \$28,205 due to local option tax receipts in excess of disbursements.
- The FEMA Fund cash basis balance increased by \$21,279 due to receipts that had not been expended by year end.
- The Fire Department fund cash basis balance increased by \$6,221 from the prior year due to increased fire receipts.
- The Debt Service Fund cash basis balance decreased by \$1,476 due to current year expenditures in excess of property tax receipts.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$9,998 to \$60,114, while the Sewer Fund cash balance decreased by \$13,350 to \$26,422. These decreases are due primarily to capital projects during fiscal year 2009.

## DEBT ADMINISTRATION

At June 30, 2009, the City had \$307,305 in capital loan notes and other long-term debt, compared to \$264,619 last year, as shown below.

### Outstanding Debt at Year End

	Year Ended June 30,	
	2009	2008
General obligation capital loan notes	\$ 47,000	\$ 51,000
Revenue notes	<u>260,305</u>	<u>213,619</u>
	\$ <u>307,305</u>	\$ <u>264,619</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$47,000 is below its constitutional debt limit of \$369,666.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Mystic, Iowa's elected and appointed officials and citizens considered many factors when setting the fiscal year 2010 budget, tax rates, and fees charged for various City activities.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was (3.618) % for fiscal year 2009 compared with the national rate of (3.122) %. Inflation has been modest here due in part to the slowing of the residential housing market and increases in energy prices in fiscal year 2009.

These indicators were taken into account when adopting the budget for fiscal year 2010. Amounts available for appropriation in the operating budget are \$310,200, a decrease of 2.1 percent over the final 2009 budget. Intergovernmental receipts are expected to make up the majority of this decrease. The City does not expect these decreases to affect the programs they currently offer. Budgeted disbursements are expected to increase by \$3,408. The City has added no major new programs or initiatives to the 2010 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase by \$3,942 by the close of 2010.

#### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Mystic City Clerk, P. O. Box 69, Mystic, Iowa, 52574.

## BASIC FINANCIAL STATEMENTS

CITY OF MYSTIC, IOWA

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

Functions/Programs	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Program Receipts</u>	
			<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants Contributions and Restricted Interest</u>
Governmental activities:				
Public safety	\$ 11,780	\$ 15,128	\$ 1,176	\$ -
Public works	105,514	-	104,161	-
Culture and recreation	4,248	-	-	-
Community and economic development	4,079	-	-	-
General government	62,887	-	-	-
Capital projects	86,573	-	-	-
Debt service	5,125	-	-	-
Total governmental activities	<u>280,206</u>	<u>15,128</u>	<u>105,337</u>	<u>-</u>
Business type activities:				
Water	199,122	60,475	-	78,399
Sewer	75,297	61,870	-	-
Total business type activities	<u>274,419</u>	<u>122,345</u>	<u>-</u>	<u>78,399</u>
Total	\$ <u>554,625</u>	\$ <u>137,473</u>	\$ <u>105,337</u>	\$ <u>78,399</u>
General receipts:				
Property tax levied for:				
General purposes				
Debt service				
Local option sales tax				
Loan proceeds				
Unrestricted interest on investments				
Miscellaneous				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
<u>Cash Basis Net Assets</u>				
Restricted:				
Debt service				
Unrestricted				
Total cash basis net assets				

Net (Disbursements) Receipts and  
Changes in Cash Basis Net Assets

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Governmental Activities	Business Type Activities	Total
\$ 4,524	\$ -	\$ 4,524
(1,353)	-	(1,353)
(4,248)	-	(4,248)
(4,079)	-	(4,079)
(62,887)	-	(62,887)
(86,573)	-	(86,573)
(5,125)	-	(5,125)
<u>(159,741)</u>	<u>-</u>	<u>(159,741)</u>
-	(60,248)	(60,248)
-	(13,427)	(13,427)
-	(73,675)	(73,675)
<u>(159,741)</u>	<u>(73,675)</u>	<u>(233,416)</u>
68,969	-	68,969
1,124	-	1,124
38,434	-	38,434
-	49,686	49,686
496	641	1,137
<u>26,813</u>	<u>-</u>	<u>26,813</u>
<u>135,836</u>	<u>50,327</u>	<u>186,163</u>
(23,905)	(23,348)	(47,253)
<u>181,738</u>	<u>109,884</u>	<u>291,622</u>
\$ <u>157,833</u>	\$ <u>86,536</u>	\$ <u>244,369</u>
\$ 34,907	\$ -	\$ 34,907
<u>122,926</u>	<u>86,536</u>	<u>209,462</u>
\$ <u>157,833</u>	\$ <u>86,536</u>	\$ <u>244,369</u>

CITY OF MYSTIC, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

		<u>Special Revenue</u>			
	<u>General</u>	<u>Road Use</u> <u>Tax</u>	<u>Local Option</u> <u>Sales Tax</u>	<u>FEMA</u>	<u>Fire</u> <u>Department</u>
<b>RECEIPTS:</b>					
Property tax	\$ 68,969	\$ -	\$ -	\$ -	\$ -
Other city tax	-	-	38,434	-	-
Intergovernmental	1,956	48,786	-	55,375	-
Charges for service	-	-	-	-	15,128
Use of money and property	125	-	371	-	-
Miscellaneous	2,483	-	10,000	50	-
Total receipts	<u>73,533</u>	<u>48,786</u>	<u>48,805</u>	<u>55,425</u>	<u>15,128</u>
<b>DISBURSEMENTS:</b>					
Operating:					
Public safety	5,398	-	-	-	6,382
Public works	42,598	48,770	-	14,146	-
Culture and recreation	4,248	-	-	-	-
Community and economic development	989	-	3,090	-	-
General government	57,877	-	5,010	-	-
Capital projects	74,073	-	12,500	-	-
Debt service	-	-	-	-	2,525
Total disbursements	<u>185,183</u>	<u>48,770</u>	<u>20,600</u>	<u>14,146</u>	<u>8,907</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(111,650)</u>	<u>16</u>	<u>28,205</u>	<u>41,279</u>	<u>6,221</u>
Other financing sources (uses):					
Sale of assets	13,500	-	-	-	-
Transfers in	41,000	-	-	-	-
Transfers out	<u>(21,000)</u>	<u>-</u>	<u>-</u>	<u>(20,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>33,500</u>	<u>-</u>	<u>-</u>	<u>(20,000)</u>	<u>-</u>
Net change in cash balances	(78,150)	16	28,205	21,279	6,221
Cash balances beginning of year	<u>62,328</u>	<u>(16)</u>	<u>31,436</u>	<u>34,771</u>	<u>16,836</u>
Cash balances end of year	\$ <u>(15,822)</u>	\$ <u>-</u>	\$ <u>59,641</u>	\$ <u>56,050</u>	\$ <u>23,057</u>
<b>Cash Basis Fund Balances</b>					
Reserved:					
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved:					
General fund	(15,822)	-	-	-	-
Special revenue funds	-	-	59,641	56,050	23,057
Total cash basis fund balances	\$ <u>(15,822)</u>	\$ <u>-</u>	\$ <u>59,641</u>	\$ <u>56,050</u>	\$ <u>23,057</u>

See Notes to Financial Statements

<u>Debt</u> <u>Service</u>	<u>Total</u>
\$ 1,124	\$ 70,093
-	38,434
-	106,117
-	15,128
-	496
-	<u>12,533</u>
<u>1,124</u>	<u>242,801</u>

-	11,780
-	105,514
-	4,248
-	4,079
-	62,887
-	86,573
<u>2,600</u>	<u>5,125</u>
<u>2,600</u>	<u>280,206</u>

<u>(1,476)</u>	<u>(37,405)</u>
----------------	-----------------

-	13,500
-	41,000
-	<u>(41,000)</u>
-	<u>13,500</u>

(1,476)	(23,905)
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<u>36,383</u>	<u>181,738</u>
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\$ <u>34,907</u>	\$ <u>157,833</u>
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\$ 34,907	\$ 34,907
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-	(15,822)
-	<u>138,748</u>
\$ <u>34,907</u>	\$ <u>157,833</u>

## CITY OF MYSTIC, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>Operating receipts:</u>			
Charges for service	\$ 60,475	\$ 61,870	\$ 122,345
<u>Operating disbursements:</u>			
Business type activities	<u>75,199</u>	<u>61,088</u>	<u>136,287</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(14,724)</u>	<u>782</u>	<u>(13,942)</u>
<u>Non-operating receipts (disbursements):</u>			
Intergovernmental	78,399	-	78,399
Interest on investments	564	77	641
Debt service	(3,995)	-	(3,995)
Loan proceeds	49,686	-	49,686
Capital projects	<u>(119,928)</u>	<u>(14,209)</u>	<u>(134,137)</u>
Total non-operating receipts (disbursements)	<u>4,726</u>	<u>(14,132)</u>	<u>(9,406)</u>
Deficiency of receipts under disbursements	<u>(9,998)</u>	<u>(13,350)</u>	<u>(23,348)</u>
<u>Other financing sources (uses):</u>			
Transfers in	21,000	-	21,000
Transfers out	<u>(21,000)</u>	<u>-</u>	<u>(21,000)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	(9,998)	(13,350)	(23,348)
Cash balances beginning of year	<u>70,112</u>	<u>39,772</u>	<u>109,884</u>
Cash balances end of year	\$ <u>60,114</u>	\$ <u>26,422</u>	\$ <u>86,536</u>
<u>Cash Basis Fund Balances</u>			
Unreserved	\$ <u>60,114</u>	\$ <u>26,422</u>	\$ <u>86,536</u>



## CITY OF MYSTIC, IOWA

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Mystic, Iowa is a political subdivision of the State of Iowa located in Appanoose County. It was first incorporated in 1889 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

##### A. Reporting Entity

For financial reporting purposes, the City of Mystic, Iowa has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

##### Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Rathbun Solid Waste Commission, Area 15 Housing Board, Hazmat Team, and EMS Council.

##### B. Basis of Presentation

Government-wide Financial Statement – The Statement of Activities and Net Assets reports information on all nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF MYSTIC, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**B. Basis of Presentation (Continued)**

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund accounts for Local Option Sales Tax revenues and associated project expenditures.

The FEMA Fund accounts for FEMA revenues received and related project expenditures.

The Fire Department fund is used to account for Fire Department related receipts and disbursements.

The Debt Service Fund is used to account for the payment of interest and principal on the City's general obligation long term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

**C. Measurement Focus and Basis of Accounting**

The City of Mystic, Iowa maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

**D. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the community and economic development, capital projects, debt service and business type activities functions.

CITY OF MYSTIC, IOWA

NOTES TO FINANCIAL STATEMENTS

**NOTE 2: CASH AND POOLED INVESTMENTS**

The City's deposits in banks at June 30, 2009, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

**NOTE 3: NOTES PAYABLE**

Annual debt service requirements to maturity for general obligation and sewer revenue notes are as follows:

Year Ending June 30,	General Obligation Capital Loan Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 7,886	\$ 6,003	\$ 16,759	\$ 22,643	\$ 24,645	\$ 28,646
2011	5,132	1,987	10,398	11,563	15,530	13,550
2012	5,265	1,926	10,806	11,058	16,071	12,984
2013	6,404	1,415	11,192	10,574	17,596	11,989
2014	6,548	1,046	11,613	10,057	18,161	11,103
2015-2019	15,765	1,489	67,146	41,705	82,911	43,194
2020-2024	-	-	84,407	24,489	84,407	24,489
2025-2027	-	-	47,984	4,939	47,984	4,939
Total	\$ 47,000	\$ 13,866	\$ 260,305	\$ 137,028	\$ 307,305	\$ 150,894

The City's Sewer Revenue Notes closing documents require a funded depreciation account to be established and funded at a rate of \$2,500 per year. As of June 30, 2009 the required depreciation account is underfunded by approximately \$52,500.

**NOTE 4: PENSION AND RETIREMENT BENEFITS**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% of covered salary. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2009 and 2008 were \$3,496 and \$4,071, respectively, equal to the required contributions for each year.

## CITY OF MYSTIC, IOWA

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 5: RISK MANAGEMENT

The City of Mystic, Iowa is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 577 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public official's liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2009 were \$15,056.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in the aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured by the Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2009, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### NOTE 6: COMMITMENTS

The City has agreed to pay a total of \$25,000 to assist with an Appanoose County project involving work on T14. The City began making annual payments of \$5,000 in 2007. The project is expected to be completed in 2010.

CITY OF MYSTIC, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 7: DEFICIT BALANCE

The General Fund had a deficit balance of \$15,822 at June 30, 2009. The deficit balance was the result of current year expenditures exceeding current year receipts and the prior year ending cash balance. The deficit will be eliminated upon receipt of future years' property tax.

NOTE 8: RECLASSIFICATIONS

Certain amounts for the year ended June 30, 2008 have been reclassified to conform with June 30, 2009 presentation.

REQUIRED SUPPLEMENTARY INFORMATION

## CITY OF MYSTIC, IOWA

BUDGETARY COMPARISON SCHEDULE  
 OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -  
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2009

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	<u>Total</u>	Budgeted Amounts <u>Original/Final</u>	Final to Total Variance
<b>RECEIPTS:</b>					
Property tax	\$ 70,093	\$ -	\$ 70,093	\$ 66,255	\$ 3,838
Other city tax	38,434	-	38,434	42,470	(4,036)
Licenses and permits	-	-	-	200	(200)
Use of money and property	496	641	1,137	-	1,137
Intergovernmental	106,117	78,399	184,516	96,000	88,516
Charges for service	15,128	122,345	137,473	111,005	26,468
Miscellaneous	12,533	-	12,533	1,000	11,533
Total receipts	<u>242,801</u>	<u>201,385</u>	<u>444,186</u>	<u>316,930</u>	<u>127,256</u>
<b>DISBURSEMENTS:</b>					
Public safety	11,780	-	11,780	17,000	5,220
Public works	105,514	-	105,514	110,400	4,886
Health and social services	-	-	-	400	400
Culture and recreation	4,248	-	4,248	6,600	2,352
Community and economic development	4,079	-	4,079	500	(3,579)
General government	62,887	-	62,887	74,900	12,013
Capital projects	86,573	-	86,573	-	(86,573)
Debt service	5,125	-	5,125	3,050	(2,075)
Business type activities	-	274,419	274,419	90,000	(184,419)
Total disbursements	<u>280,206</u>	<u>274,419</u>	<u>554,625</u>	<u>302,850</u>	<u>(251,775)</u>
Excess (deficiency) of receipts over (under) disbursements	(37,405)	(73,034)	(110,439)	14,080	(124,519)
Other financing sources	<u>13,500</u>	<u>49,686</u>	<u>63,186</u>	<u>-</u>	<u>63,186</u>
Net change in cash balances	(23,905)	(23,348)	(47,253)	14,080	(61,333)
Balances beginning of year	<u>181,738</u>	<u>109,884</u>	<u>291,622</u>	<u>225,194</u>	<u>66,428</u>
Balances end of year	\$ <u>157,833</u>	\$ <u>86,536</u>	\$ <u>244,369</u>	\$ <u>239,274</u>	\$ <u>5,095</u>

CITY OF MYSTIC, IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

JUNE 30, 2009

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the community and economic development, capital projects, debt service and business type activities functions.



## OTHER SUPPLEMENTARY INFORMATION

CITY OF MYSTIC, IOWA

SCHEDULE OF INDEBTEDNESS  
YEAR ENDED JUNE 30, 2009

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
Revenue notes:			
Sewer utility	June 27, 1988	5.00%	\$ 292,500
Water utility	January 17, 2008	3.25%	55,814
			<u>\$ 348,314</u>
General obligation capital loan notes:			
Series 1996	February 1, 1996	7.50%	\$ 30,000
Series 2008	May 23, 2008	4.25%	35,000
			<u>\$ 65,000</u>

SCHEDULE 1

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 207,491	\$ -	\$ -	\$ 207,491	\$ -	\$ -
6,128	49,686	3,000	52,814	995	-
<u>\$ 213,619</u>	<u>\$ 49,686</u>	<u>\$ 3,000</u>	<u>\$ 260,305</u>	<u>\$ 995</u>	<u>\$ -</u>
\$ 16,000	\$ -	\$ 4,000	\$ 12,000	\$ 1,125	\$ -
35,000	-	-	35,000	162	-
<u>\$ 51,000</u>	<u>\$ -</u>	<u>\$ 4,000</u>	<u>\$ 47,000</u>	<u>\$ 1,287</u>	<u>\$ -</u>

## CITY OF MYSTIC, IOWA

## NOTE MATURITIES

JUNE 30, 2009

Year Ending June 30,	Revenue Notes								Grand Total
	Sewer				Water				
	Issued June 27, 1988				Issued January 17, 2008				
	Interest		Amount		Interest		Amount		
	Rate				Rate				
2010	5.00 %	\$	13,759		3.25 %	\$	3,000	\$ 16,759	
2011	5.00		7,398		3.25		3,000	10,398	
2012	5.00		7,806		3.25		3,000	10,806	
2013	5.00		8,192		3.25		3,000	11,192	
2014	5.00		8,613		3.25		3,000	11,613	
2015	5.00		9,042		3.25		3,000	12,042	
2016	5.00		9,529		3.25		3,000	12,529	
2017	5.00		10,006		3.25		3,000	13,006	
2018	5.00		10,519		3.25		4,000	14,519	
2019	5.00		11,050		3.25		4,000	15,050	
2020	5.00		11,633		3.25		4,000	15,633	
2021	5.00		12,222		3.25		4,000	16,222	
2022	5.00		12,848		3.25		4,000	16,848	
2023	5.00		13,501		3.25		4,000	17,501	
2024	5.00		14,203		3.25		4,000	18,203	
2025	5.00		14,927		3.25		814	15,741	
2026	5.00		15,693				-	15,693	
2027	5.00		16,550				-	16,550	
Total		\$	207,491			\$	52,814	\$ 260,305	

Year Ending June 30,	General Obligation						Grand Total	
	Capital Loan Notes			Capital Loan Notes				
	Issued February 1, 1996			Issued May 23, 2008				
	Interest		Amount	Interest		Amount		
	Rate			Rate				
2010	7.50 %	\$	2,000	4.25 %	\$	5,886	\$	7,886
2011	7.50		2,000	4.25		3,132		5,132
2012	7.50		2,000	4.25		3,265		5,265
2013	7.50		3,000	4.25		3,404		6,404
2014	7.50		3,000	4.25		3,548		6,548
2015			-	4.25		3,699		3,699
2016			-	4.25		3,856		3,856
2017			-	4.25		4,020		4,020
2018			-	4.25		4,190		4,190
Total		\$	12,000		\$	35,000	\$	47,000

## CITY OF MYSTIC, IOWA

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -  
ALL GOVERNMENTAL FUNDS

FOR THE YEARS ENDED JUNE 30, 2009, 2008 AND 2006

	<u>2009</u>	<u>2008</u>	<u>2006</u>
<u>RECEIPTS:</u>			
Property tax	\$ 70,093	\$ 75,876	\$ 54,424
Other city tax	38,434	38,032	36,939
Intergovernmental	106,117	157,194	80,254
Charges for service	15,128	8,977	8,926
Licenses and permits	-	-	390
Use of money and property	496	2,564	1,618
Miscellaneous	<u>12,533</u>	<u>6,556</u>	<u>2,173</u>
Total receipts	\$ <u>242,801</u>	\$ <u>289,199</u>	\$ <u>184,724</u>
<u>DISBURSEMENTS:</u>			
Operating:			
Public safety	\$ 11,780	\$ 24,826	\$ 38,127
Public works	105,514	117,090	113,944
Culture and recreation	4,248	8,810	-
Community and economic development	4,079	25	13,095
General government	62,887	62,373	50,360
Capital projects	86,573	58,186	3,500
Debt service	<u>5,125</u>	<u>-</u>	<u>-</u>
Total disbursements	\$ <u>280,206</u>	\$ <u>271,310</u>	\$ <u>219,026</u>

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund of the City of Mystic, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated January 30, 2010. Our report expressed qualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2008. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Mystic, Iowa's internal control over financial reporting as a basis designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Mystic, Iowa's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Mystic, Iowa's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Mystic, Iowa's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Mystic, Iowa's financial statements that is more than inconsequential will not be prevented or detected by the City of Mystic, Iowa's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Mystic, Iowa's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items II-A-09, II-B-09, and II-C-09 are material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Mystic, Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Mystic, Iowa's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Mystic, Iowa's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Mystic, Iowa and other parties to whom the City of Mystic, Iowa may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Mystic, Iowa during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa  
January 30, 2010

CITY OF MYSTIC, IOWA

SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2009

Part I: Summary of the Independent Auditor's Results

- a) Qualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

Significant Deficiencies:

II-A-09 Accounting Policies and Procedures Manual – The City does not have a current accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits.

- 1. Aid in training additional or replacement personnel and act as a quick reference to staff members and officials.
- 2. Increased effectiveness and efficiency in your organization by streamlining accounting operations and achieving uniformity in accounting.
- 3. Helps preserve the key elements in the government's internal control structure.

Response – The City Clerk and Council will work on preparing an accounting policies and procedures manual.

Conclusion – Response accepted.

II-B-09 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. All accounting/bookkeeping duties are performed by one employee with limited oversight.

Recommendation – We realize segregation of duties is difficult with a single office employee. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

II-C-09 Reconciliation of Bank Accounts – City bank accounts were not properly reconciled throughout the year.

Recommendation – The City should formalize its procedures for reconciling bank accounts each month. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – We will consider performing a formal reconciliation for Council approval on a monthly basis.

Conclusion – Response accepted.



CITY OF MYSTIC, IOWA  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2009

Part II: Findings Related to the Financial Statements (Continued)

- II-D-09 Bank Accounts – During the audit, it was noted that the City has 11 bank accounts with many accounts transferring money back and forth several times each month.

Recommendation – The City should consider combining or eliminating several of these accounts to help ease the administrative burden of reconciling all of these accounts.

Response – We will consider this.

Conclusion – Response accepted.

Instances of Noncompliance:

No matters were noted.

Part III: Other Findings Related to Required Statutory Reporting:

- III-A-09 Certified Budget – Disbursements during the year ended June 30, 2009 exceeded the amounts budgeted in community and economic development, capital projects, debt service and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, that "Public monies may not be expended or encumbered except under annual or continuing appropriation".

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – In the future, we will monitor our budget to actual status on a monthly basis.

Conclusion – Response accepted.

- III-B-09 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- III-C-09 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- III-D-09 Business Transactions – No business transactions between the City and City officials or employees were noted.

- III-E-09 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- III-F-09 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

The City went into closed session on May 7, 2009 and January 15, 2009, but did not cite an exemption in accordance with Chapter 21 of the Code of Iowa.

Recommendation – The City should comply with Code of Iowa Chapter 21.

Response – We will do so from now on.

Conclusion – Response accepted.

CITY OF MYSTIC, IOWA

SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2009

Part III: Other Findings Related to Required Statutory Reporting: (Continued)

- III-G-09 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa were noted.

The City is required to adopt an investment policy which complies with Chapter 12B.10B of the Code of Iowa. During the audit the City Clerk was unable to locate a copy of the City's investment policy.

Recommendation – The City should locate and update its investment policy.

Response – We will locate and update the City's investment policy.

Conclusion – Response accepted.

- III-H-09 Revenue Notes – The City's sewer revenue note closing documents require a funded depreciation account to be established and funded at a rate of \$2,500 per year. As of June 30, 2009, the required depreciation account is underfunded by approximately \$52,500.

Recommendation – The City should investigate budgeting alternatives and rate increases to eliminate the underfunding.

Response – We will review our budgeting procedures and consider rate adjustments to eliminate the underfunding.

Conclusion – Response acknowledged.

- III-I-09 Financial Condition – The General Fund had a deficit balance at June 30, 2009.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return the fund to a sound financial position.

Response – The deficit in the General Fund is expected to be eliminated through future property tax receipts.

Conclusion – Response accepted.

- III-J-09 Annual Report – The annual report was not filed by its due date of December 1, 2009.

Recommendation – The City should comply with Code of Iowa requirements.

Response – We will do so from now on.

Conclusion – Response accepted.